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THE 1991 MONTANA LOTTERY ANNUAL REPORT

Lottery Montana

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Dear Montanans,

The Montana Lottery generated a lot of excitement for the state in Fiscal Year 1991. Mindy Bowman and Karin Brier demonstrated to Montanans that the dreams of two young people really can come true with their good fortune in winning a $7.36 million Lotto Jackpot last year. They've been great spokespersons for the lottery and we wish them the best of luck in the future. Since Mindy and Karin continue to play Lotto, we may see them in the winner's circle again.

Since 1987, the Montana Lottery has established itself as a positive addition to state government. Credit for this goes to the fine women and men who make up our lottery commission, the very able lottery staff and our lottery director. Keep up the good work and here's wishing Montanans a good year to come. May good luck be yours.

Sincerely,

STAN STEPHENS
Governor

Zoann Attwood,
Director
Montana Lottery

Reflecting back on FY1991

It's always rewarding to be able to reflect back on the year and feel as if several long range goals have been accomplished. FY91 is such a year. Montana Cash occupied an inordinate amount time and energy in order to offer a new product to our playing public. Our players responded with overwhelming acceptance and continue to display their approval with encouraging sales revenues. Through research our players told us they wanted a game that was just for Montanans. They still wanted to play for the millions offered through Lotto*America, but they would be thrilled to win $20,000, $200, or $5 in Montana Cash. Montana Cash was designed by the players - we just listened to what they said they wanted.

And we are doing the same with our instant games. In FY91, we began testing each instant game at least two times with focus groups before it hits the check-out stands. We bring together heavy and light players who tell us what they like about a proposed game and offer suggestions for changes. It's proven to be an invaluable tool and one that has lessened our chance of error in offering a game that the public will not play.

These types of strategies plus a baseline study to identify our player are helping us accomplish long-range planning and targeting of our advertising and marketing efforts. We are experiencing steady and progressive revenue increases each year. According to a study of lotteries, Montana was one of only a few states to experience growth of gross revenue for FY91. We are pleased with our progress and look forward to continued success.

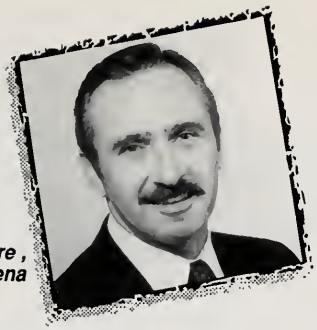
Montana Lottery Commission

Ward Shanahan, Chairman, Helena

I have found the lottery to be a very rewarding experience. The lottery itself is an interesting business, and its staff is a lively, motivated, and well-qualified group of people. One thing I have learned about the lottery is that it's a totally different kind of state agency. It operates more like a complex, profit-making business.
If I could give one message to the public it would be that, "this is your state lottery. It is carefully regulated, actively promoted, and the money serves a good purpose. Give it a try."

Becky Erickson, Glasgow

Every school district in the state directly benefits from the lottery. In Fiscal Year '91 the Office of Public Instruction received $4,200,337 from the lottery and we hope to give even more next year. The Montana Lottery is a big business and I treat it like I would my own business. We (the commissioners and staff) are here to maximize profits. That means we have to keep reevaluating and adjusting our product mix. And most importantly stay open to new games and products in order to keep Montana players interested.



Bill Ware , Helena

I have been on the lottery commission for a couple of years now and I have found it to be both a rewarding and great learning experience. My primary role on the commission is to ensure that the security of the lottery operation is well-maintained. And I can confidently say to the participating public that the lottery is well-managed and secure. I've been extremely impressed with their operation. The lottery staff as a whole are very professional and work well together to accomplish their goals. They have created a fun, uplifting, and positive work environment which I've enjoyed as their commissioner.

Gary Rebal, Great Falls

Dwaine Iverson, Shelby

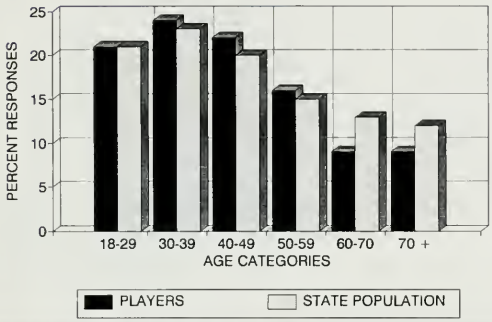
I have found the lottery to be very interesting especially as I learn about the different set of products and laws that we can learn from. Lotteries are very important to their respective states because they are generating much needed revenue. The Montana Lottery is still in its early stages but many great things are happening as the lottery matures and I'm sure they will continue.

Player Demographics

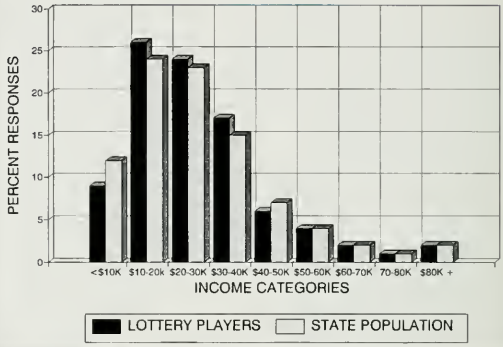
Fiscal Year 1991

AGE

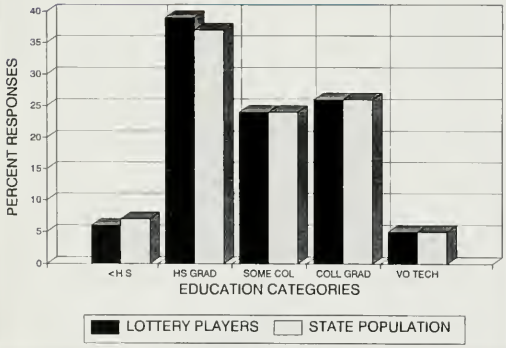
(N = 770)



INCOME



EDUCATION



GENDER

*Player profile survey was done September 1991.

Since its inception, the Montana Lottery has generated over $19.5 million for Montana's educational system. In fiscal year '91 alone, the lottery contributed $4,200,337 toward both elementary and secondary schools throughout the state.

Lottery revenues are transferred to the Office of Public Instruction each quarter where they are placed in the state equalization aid account. The state then distributes the money to the public school districts every month.

MONTANA CA$H Winner

Sandy Parsons of Toston was the first "MONTANA CA$H" jackpot winner. She won $43,200 on May 18, 1991, just two weeks after the game was introduced. Sandy had never played lotto before she purchased her MONTANA CA$H tickets.

Sandy Parsons with her husband Mike. They own and operate their family business, "Crow Creek Outfitters."

MONTANA CA$H

Lottery Montana

In May, ***Montana lottery players*** got what they have been asking for...a lotto game just for Montanans, "MONTANA CA$H."

MONTANA CA$H is the state's first on-line lottery product to be implemented since Lotto*America. Lotto*America was introduced in November of 1989.

The new game offers players a chance to win a jackpot of $20,000 or more by correctly matching five numbers drawn from a field of 37. Other cash prizes include guaranteed amounts of $200 for matching four of the five numbers, and $5 for matching three of five. Odds of winning the jackpot are 1 in 217,949, which is 59 times better than Lotto*America's odds of 1 in 12,913,583.

MONTANA CA$H was developed because focus group interviews indicated there was a void between the $5,000 top prize in the instant games and the dreams of winning millions in lotto. MONTANA CA$H fills that gap, plus it offers players better odds, more winners, (all cash prizes) and a game exclusively for Montana.

5

MONTANA CA$H drawings are televised every Saturday with Marsha Rae as the emcee

3

Instant ticket sales accounted for ***$8.2 million*** in revenues for the lottery in '91. Focus groups were used for the first time to test players' reactions to instant games that were in the planning stages. By pretesting our players reactions to instant games we were able to better design games that appeal to Montanans.

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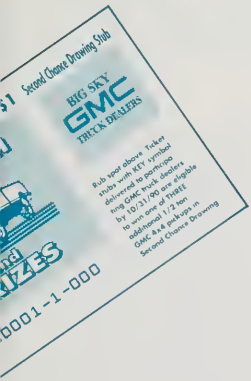
Montana's LOTTO☆AMERICA Winners

Mindy Bowman & Karin Brier

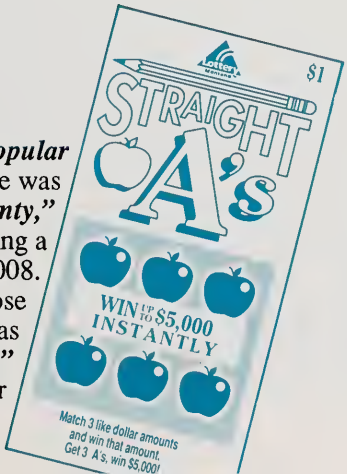
Karin Brier, 29, and Mindy Bowman, 27, both of Missoula, became ***multi-millionaires*** in February, when they won the Lotto*America jackpot worth $7.36 million. They each received their first of twenty annual checks of $147,200 at a press conference held at the Mini Mart in Missoula where they purchased their winning ticket.

Karin and Mindy have played Lotto*America together since the game began in November of 1989 and always agreed that they would split any winnings.

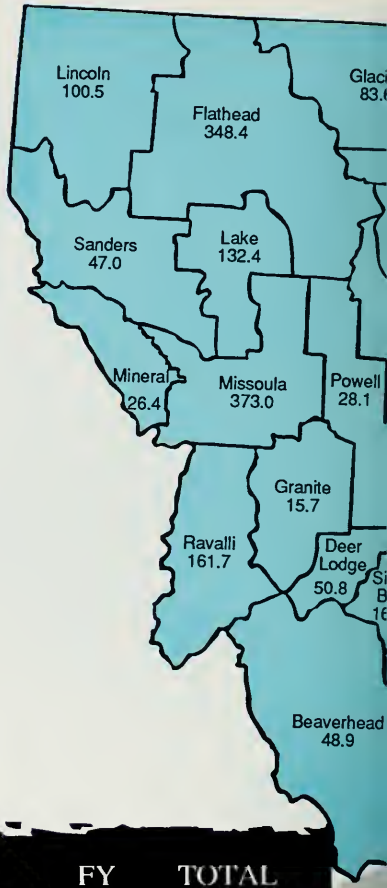


Summer promotions kept the lottery staff busy as we attended events around the state. We were seen at the horse races, Pioneer League baseball games, and at the Helena and Billings fairs. The lottery booth created an enthusiastic audience wherever it went. It also provided lottery staff with an excellent opportunity to attract new players and to reeducate former players about the lottery's products.

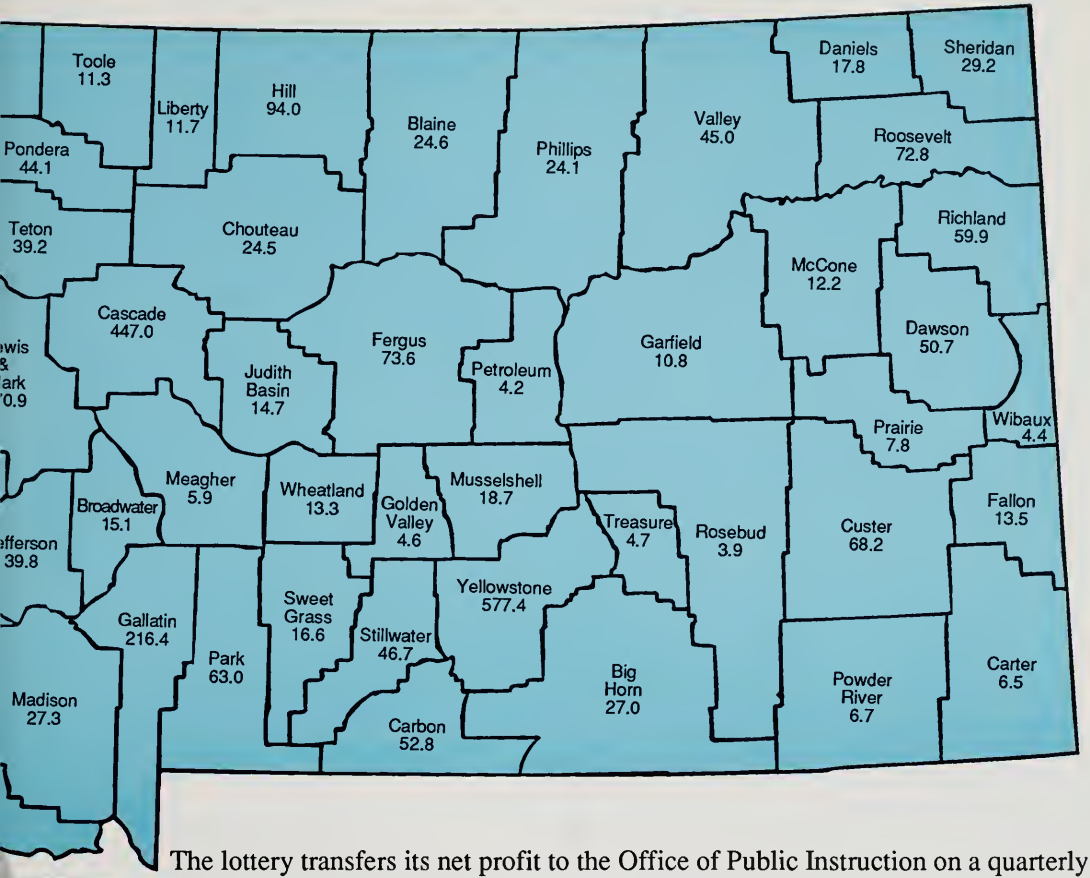
The most ***popular*** instant game was ***More Pickup Plenty,"*** with sales reaching a high of $1,748.008. Coming in a close second was ***"Straight A's"*** with sales of over $1.4 million.



The Montana Lottery Is Working For Today's Youth...And It Shows!



	FY 87 & 88	FY 88 - 89	FY 89 - 90	FY 90 - 91	TOTAL
SALES	$25.6	$11.6	$21.5	$23.9	$82.6
PRIZES	$11.5	$ 5.3	$10.2	$11.7	$38.7
COMMISSIONS	$ 1.4	$ .7	$ 1.3	$ 1.3	$ 4.7
TICKET COSTS	$ .9	$ .6	$ 2.9	$ 4.0	$ 8.4
OPERATIONS	$ 3.6	$ 2.1	$ 2.9	$ 2.7	$11.3
PROCEEDS TO SCHOOLS	$ 8.3	$ 2.8	$ 4.2	$ 4.2	$19.5



The lottery transfers its net profit to the Office of Public Instruction on a quarterly basis. This money is added to the statewide equalization aid for Montana's public schools.

The map shows an estimation of how much each county received of the $4,200,337 earned by the Montana Lottery during the '91 fiscal year. Figures are in thousands of dollars.

In four years of operation, the Montana Lottery has contributed $19,519,781 to Montana Schools.

When Montanans Play...

One of the most important components of the Montana Lottery is the great support we receive from the 813 retailers across the state who sell and help promote our products. And because of their efforts, we were able to reward them with over $1.3 million in the form of commissions and bonuses.

Many retailers have commented how lottery products have helped them create a steady clientele, provide better customer service, and increase profits.

Because of the enthusiastic sales effort on the part of our Lottery retailers, Montanans have won over $11.7 million in prizes.

...Montana WINS!

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Commissioners
Montana State Lottery
Helena, Montana

INDEPENDENT AUDITOR'S REPORT

We have audited the balance sheet of the Montana State Lottery, a component unit of the State of Montana as of June 30, 1991, and the related statements of revenue, expenses and changes in retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Montana State Lottery as of June 30, 1990, and June 30, 1989, were audited by other auditors whose reports dated September 13, 1990, and September 26, 1989, respectively, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 1991 financial statements referred to above present fairly, in all material respects, the financial position of the Montana State Lottery as of June 30, 1991, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Douglas Wilson & Company, PC

September 13, 1991

Douglas Wilson & Company, PC
Established 1913

Statements of Cash Flows

	Years Ending June 30		
	1991	1990	1989
CASH FLOWS FROM OPERATING ACTIVITIES			
Net operating income before non-operating expense and transfers	$ 4,148,178	$ 4,148,589	$ 2,915,011
Adjustment to reconcile net operating income to net cash provided by operating activities:			
Amortization and Depreciation	317,396	323,005	294,283
Book Value of Assets Disposed	773	—	—
Decrease (Increase) in:			
Accounts Receivable	169,358	(107,498)	(442,197)
Inventory	(65,465)	25,518	65,243
Prepaid Expenses	(6,160)	(590)	20,760
Employee Advances	940	(940)	50
Multi-State Lottery Receivable	(542,809)	—	—
Increase (Decrease) in:			
Accounts Payable & Accruals	11,345	243,863	35,011
Due to Superintendent of Public Instruction	(427,123)	—	—
Due to Other State Agencies	20,618	11,008	(23,514)
Accrued Compensated Absences	5,157	19,603	84
Estimated Prizes Payable	299,614	(809,999)	(1,870,272)
Deferred On-Line Revenue	(400)	20,029	
Allowance for Returned Tickets	(18,142)	(140,071)	(3,456)
	3,913,280	3,732,517	991,003
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Operating Transfers Out to State Superintendent of Public Instruction	(4,200,337)	(2,955,748)	(3,700,759)
Acquisition of Advertising License Fee	—	—	(100,000)
	(4,200,337)	(2,955,748)	(3,800,759)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Payment of Long-Term Debt	(95,251)	(189,204)	(188,830)
Acquisition of Fixed Assets	(48,317)	(66,033)	(2,250)
Proceeds from Sale of Fixed Assets	17,790	7,716	—
Interest Paid on Fixed Assets Acquisition Contract	(119)	(540)	(913)
Other	6,953	—	—
	(118,944)	(248,061)	(191,993)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Earned on Cash Equivalents	40,371	25,825	—
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(365,630)	554,533	(3,001,749)
Cash and Cash Equivalents at Beginning of Year	1,341,235	786,702	3,788,451
CASH AND CASH EQUIVALENTS AT YEAR END	$ 975,605	$ 1,341,235	$ 786,702

See the accompanying independent auditors' report and the notes to financial statements.

Balance Sheets

	Years Ending June 30		
	1991	1990	1989
CURRENT ASSETS			
Cash and cash equivalents	$ 975,605	$1,341,235	$ 786,702
Accounts receivable	602,632	771,995	664,497
Inventory	173,921	108,456	133,974
Prepaid expenses	8,088	1,928	1,338
Employee advances	5,000	5,940	5,000
	1,765,246	2,229,554	1,591,511
FIXED ASSETS			
Computer, furniture and equipment	762,715	772,183	737,014
Computer software	840,400	840,400	840,400
	1,603,115	1,612,583	1,577,414
Less:			
Accumulated depreciation and amortization	(1,091,024)	(846,062)	(577,866)
	512,091	766,521	999,548
OTHER ASSETS			
Multi-State Lottery Receivable	542,809	—	—
Advertising license fee, net of accumulated amortization of $30,261 in 1991, $47,857 in 1990 and $11,209 in 1989	21,863	52,143	88,791
	564,672	52,143	88,791
TOTAL ASSETS	$2,842,009	$3,048,218	$2,679,850

LIABILITIES & FUND EQUITY

CURRENT LIABILITIES			
Long-term debt due within one year	$ 70,033	$ 165,284	$ 189,204
Accounts payable and accruals	340,871	329,526	85,663
Due to State Superintendent of Public Instruction	1,092,397	1,519,520	306,410
Due to other state agencies	97,048	76,430	65,422
Accrued compensated absences	99,549	94,392	74,789
Estimated prizes payable	994,758	695,144	1,505,143
Deferred on-line revenue	19,629	20,029	—
Allowance for ticket returns	129,751	147,893	287,964
	2,844,036	3,048,218	2,514,595
LONG-TERM DEBT, net of current portion	—	—	165,284
FUND EQUITY (DEFICIT)			
Unreserved retained earnings (deficit)	(2,027)	—	(29)
TOTAL LIABILITIES & FUND EQUITY	$2,842,009	$3,048,218	$2,679,850

See the accompanying independent auditors' report and the notes to financial statements.

Statements of Revenue, Expense and Changes in Retained Earnings

	Years Ending June 30		
	1991	1990	1989
OPERATING GROSS REVENUES			
Instant ticket games	$ 8,170,377	$11,619,715	$11,644,061
On-line games	15,761,001	9,890,070	—
Gross Ticket Revenues	23,931,378	21,509,785	11,644,061
COST OF TICKET REVENUES			
Instant Ticket Prize Expense	4,672,276	5,549,622	5,300,097
On-Line Ticket Prize Expense	6,986,546	4,639,706	—
Retailer Commission	1,346,955	1,352,477	669,313
Cost of Tickets Sold	503,516	552,884	630,843
On-Line Vendor Fees	3,539,506	2,358,147	—
Total Cost of Ticket Revenues	17,048,799	14,452,836	6,600,253
Net Ticket Revenues	6,882,579	7,056,949	5,043,808
License fees	4,350	4,150	3,600
Net Operating Revenue	6,886,929	7,061,099	5,047,408
OPERATING EXPENSES			
Advertising	622,030	779,968	231,536
Amortization	198,341	204,747	179,289
Bad Debt	668	—	—
Communications	73,970	67,710	64,193
Contractual Services	368,274	364,667	272,668
Depreciation	119,055	118,258	114,994
Management Service Fee	78,627	78,172	71,446
Multi-State Operating Fees	33,807	25,788	—
Personal Services	966,940	919,490	905,375
Repairs and Maintenance	77,878	83,709	76,313
Supplies and Materials	46,326	103,051	71,589
Utilities and Rent	96,536	95,280	93,969
Travel	35,054	41,706	35,877
Other	21,245	29,964	15,148
Total Operating Expenses	2,738,751	2,912,510	2,132,397
NET OPERATING INCOME BEFORE NON-OPERATING EXPENSES & TRANSFERS	4,148,178	4,148,589	2,915,011
NON-OPERATING REVENUES (EXPENSES)			
Interest Earnings	40,371	25,825	—
Gain (Loss) on Sale of Assets	2,927	(4,987)	—
Other	6,953	—	—
Interest Expense	(119)	(540)	(913)
Total Non-Operating Revenues (Expenses)	50,132	20,298	(913)
NET OPERATING INCOME BEFORE TRANSFERS	4,198,310	4,168,887	2,914,098
Operating Transfers to State Superintendent of Public Instruction	(4,200,337)	(4,168,858)	(2,774,692)
NET INCOME (LOSS)	(2,027)	29	139,406
Retained Earnings, Beginning of Period	—	(29)	(139,435)
RETAINED EARNINGS, END OF PERIOD	$ (2,027)	$ —	$ (29)

See the accompanying independent auditors' report and the notes to financial statements.

Notes to Financial Statements

June 30, 1989 - 1991

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization. The Montana State Lottery was created in November 1986 by a referendum vote of the people of Montana. Section 23-5-1001, Montana Code Annotated (MCA) establishes the provision of the code under which the Montana State Lottery operates. The Montana Lottery is operated by a five member commission consisting of Montana residents appointed by the Governor. The Commission, by law, has the power to operate a state lottery, determine the types and forms of lottery games, set the ticket price, number and size of prizes, conduct lottery drawings, enter into agreements to offer lottery games and prepare financial reports.

Disposition of revenue is a minimum of 45 percent for prizes, a maximum of 10 percent for commissions to sales agents, payment of operating expenses and the remaining revenue to the State Superintendent of Public Instruction.

The State of Montana provides certain services to the Lottery covering: central payroll, accounting, self-insurance, communication, motor pool and various other services. The costs charged to the Lottery for these services were approximately $1,320,000 and $1,265,000 in fiscal years ended June 30, 1991, and 1990, respectively.

Reporting Entity. The Lottery, a division within the Montana Department of Commerce, is considered a component unit of the oversight unit known as the State of Montana. There are no component units to be included with the Lottery as a reporting agency.

Basis of Accounting. The Lottery utilizes the accrual basis of accounting and is classified as an enterprise fund of the governmental proprietary fund type. Enterprise funds account for operations: a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred or net income is appropriate.

Revenue Recognition. Sales of lottery instant tickets are made to licensed retailers, who in turn sell the tickets to the public. Retailers receive a minimum 5 percent commission. Revenue is recognized when the tickets are delivered to the retailers. Tickets not sold by the retailer may be returned to the Lottery for credit. Sales are reduced for estimated ticket returns.

Sales of on-line lottery tickets, starting in early November, 1989, are made by licensed retailers to the public with the use of computerized terminals. Retailers receive a 5 percent commission. Revenue is recognized on drawing dates. Tickets sold in advance for future drawings are recorded as deferred revenue until the ticket becomes valid for a drawing.

Prizes. Prize expense is recognized based on the predetermined prize structure for each instant ticket and on-line game. Free tickets are recorded as a reduction in revenue and not as prize expense.

Cash and Cash Equivalents. Cash and cash equivalents consist of interest-bearing deposits with the Montana Board of Investments in the State's short-term investment pool and cash on deposit with the State Treasurer which is part of the State's pooled cash and is not separately identifiable as to specific types of securities. These funds are highly liquid and may be drawn on daily. See the statewide audit for the level of risk associated with the cash and cash equivalents.

Cash is as follows:

Cash on deposit with State Treasurer
June 30, 1991 $ 564,655
June 30, 1990 $ 506,585

Cash on deposit in short-term investment pool
June 30, 1991 $ 400,800
June 30, 1990 $ 824,500

Cash in revolving check account
June 30, 1991 $ 10,000
June 30, 1990 $ 10,000

Petty Cash
June 30, 1991 $ 150
June 30, 1990 $ 150

Total
June 30, 1991 $975,605
June 30, 1990 $ 1,341,235

Inventory. Inventories consist of tickets and supplies. Ticket inventory includes lottery instant tickets stored in the warehouse and with marketing representatives. The tickets are carried at cost using the specific identification method. Tickets are charged to cost of sales when sold and unsold tickets are charged to cost of sales upon the end or cancellation of a game.

Supply inventory is carried at cost and expensed as used.

Fixed Assets. Fixed assets are recorded at cost and depreciation or amortization is computed using the straight-line basis over the following estimated useful lives:

Computer	6 years
Software	5 years
Vehicles	3 years
Furniture & equipment	6 -10 years

Advertising License Fee. Advertising license fee is recorded at cost and amortization is computed using the straight-line basis over a 3-year estimated useful life.

Accounts Receivable. Accounts receivable represent amounts due the Lottery for purchased tickets. These amounts are electronically transferred within 28 to 34 days of instant tickets purchased, and weekly for on-line tickets purchased. The Lottery grants credit to licensed retailers throughout the State of Montana. Bad debts are nominal and no allowance for doubtful accounts has been established.

Compensated Absences. State employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Vacation leave may be accumulated to not exceed 2 times the maximum annual leave. Sick leave is earned at 12 days a year with no maximum accumulation. Upon retirement or termination, an employee is paid 100 percent for unused vacation and 25 percent for unused sick leave.

Joint Venture - Multi-State Lottery Association - In November 1989, the Montana State Lottery joined the Multi-State Lottery Association (MUSL). MUSL was created in September 1987 to operate a multi-state lottery game for the benefit of party lotteries. Each lottery participating in MUSL is represented on the Board of Directors. The Board's responsibilities are to initiate, promulgate, and administer a multi-state lottery game for the mutual benefit of the member lotteries.

As of June 30, 1991, MUSL's unaudited financial information is as follows:

Total Assets	$249,369,459
Total Liabilities	$249,271,289
Fund Balance	$ 98,170
Total Liabilities and Fund Balance	$249,369,459
Total Revenue	$ 1,709,087
Total Expenses	$ 1,737,616
Excess (Deficit) of Revenue Over Expenses	$ (28,529)

2. Long-Term Debt - Long term debt consists of the following:

Installment purchase of Instant Lottery System software payable in monthly payments of $11,672 including no interest through March 1990 and $23,344 including no interest through February 1991.

6/30/91 $ 70,033

6/30/90 $ 163,411

Lease purchase of copier payable in monthly payments of $249 including interest at 16.7% through February 1991.

6/30/91 --

6/30/90 1,873

Less portion due within one year
6/30/91 70,033

6/30/90 165,284

Long-term portion
6/30/91 $ --

6/30/90 $ --

3. Obligation to Transfer Funds to State Superintendent of Public Instruction - The remaining portion of gross revenue not used for payment of prizes, commissions, and operating expenses is transferred quarterly from the Lottery to the State Superintendent of Public Instruction. At June 30, 1991 and 1990, $1,092,392 and $1,519,520 respectively, were payable to the State Superintendent of Public Instruction. Operating transfers of $4,200,337 and $4,168,858 were reported during the fiscal years ended June 30, 1991, and 1990, respectively.

4. Lease Commitments - The Lottery has a lease for office and warehouse space in Helena, Montana. Lease expense included in the operating expenses is $81,600 for the fiscal year ended June 30, 1991, and 1990. Minimum future lease payments, under all Non-cancellable leases, are as follows:

1992 $54,400

5. Employment Retirement System - The Lottery and its employees make contributions to the Montana Public Employees Retirement System (PERS) defined benefit plan. The Lottery is required to contribute for full-time employees at the rate of 6.417 percent of annual compensation under state statute. Employees are required to contribute 6.30 percent of annual compensation. Part-time employees have an option to belong to the retirement plan, depending upon hours worked. The Montana

Public Employees' Retirement System does not segregate financial information for each participating entity.

The total number of Lottery employees covered during the year ended June 30, 1991 and 1990 was 36 and 37, respectively. The total payroll for the employees was $782,269 in 1991, and $739,699 in 1990. The Lottery's contributions were $50,093 and $44,919 for the years ended June 30, 1991, and 1990, respectively. Benefit eligibility is age 60 with at least 5 years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least 5 years of service. Monthly retirement benefits are determined by taking 1/56 times the number of years of service times the final average salary. Members' rights become vested after 5 years of service.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the system's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among employers. The Lottery is unable to determine the actuarial present value of credited projected benefits and net assets available for benefits since the information is available only on a total State basis, not agency basis.

The pension benefit obligation at June 30, 1991, for the State system as a whole was $1,173,852,092. The system's net assets available for benefits at cost on June 30, 1991, were $919,474,377 leaving an overall unfunded pension benefit obligation of $254,377,715. The Lottery's 1991 contribution represented approximately .01 percent of total June 30, 1991, contributions required of all participating entities. The Lottery is not responsible for any state system unfunded liability.

Ten-year historical trend information showing the State system's progress in accumulating sufficient assets to pay benefits when due is presented in the system's June 30, 1991, annual financial report. Only the first two years of the required 3-year trend information is available.

6. **Deferred Compensation Plan** - The Lottery's employees are eligible to participate in the State of Montana's deferred compensation plan. The State of Montana administers the plan by contractural arrangement with Nationwide Insurance.

7. Contractural Arrangements -

A. Instant Tickets - The Lottery has signed agreements to purchase instant game tickets from Dittler Brother, Inc., through March 9, 1992. This contract may be terminated by the Lottery with proper notification.

B. Computer Hardware and Software Maintenance - The Lottery has signed an agreement for computer hardware and software maintenance from Stratus computer, Inc. for $4,702 per month.

C. On-line vender - The Lottery has signed a contract with Control Data Corporation to provide on-line terminals, central computers, and telecommunication network through November 9, 1994. The contract provides for payments to be based on a percentage of weekly sales.

8. Prize Contingencies - Big Spin Jackpot - Certain Big Spin prizes awarded are payable to the winners in annual installments of 17 to 20 years, with the first payment being made by the Lottery. The Lottery has entered into agreements with an insurance company under which purchased annuities will provide payments corresponding to the Lottery's obligation to these prize winners. Because it is the intent of the Lottery that the insurance company will make future installment payments directly to each prize winner, neither the present value of the annuities nor the present value of future payments are reflected in the accompanying financial statements. The Lottery would be liable for such future payments in the amount of $3,987,647 if the insurance company was to default on their payments.

9. Multi-State Lottery Receivable - As a member of the Multi-State Lottery Association (MUSL) and the Lotto*America game, the Lottery is required to contribute to a prize reserve fund maintained by MUSL. This fund is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund, as well as the interest earned on the Lottery's share of the fund, would be returned to the Lottery upon leaving MUSL (assuming that no unanticipated prize claims have been paid).

The Lottery contributes to the reserve fund through the 45 percent set-aside for prizes. In addition the Lottery was required to contribute for its portion of the reserve fund accumulated since the start of the Lotto*America game. The Lottery made this payment in full as of June 1990, through an additional 2 percent of drawing revenue rather than making a lump sum payment. Payments made to the reserve fund are considered a portion of the prize expense associated with the on-line game.

The unreserved accounts were created by the MUSL Board in July 1990. The purpose of this account was to record interest earned on the prize reserve fund when the prize reserve fund balance is not below the ceiling amount. The amounts in the unreserved accounts can be used as approved by the Board.

As of June 30, 1991, the MUSL prize reserve fund had a balance of $20,827,230 of which the Montana Lottery's combined reserve and unreserved funds were $542,809.

10. Lotto*America Prizes and Investments - Prizes awarded to Lotto*America grand prize winners are paid 20 annual installments. The Multi-State Lottery purchases United States Treasury zero coupon bonds to finance the remaining installments of the grand prizes. The bonds are purchased in the name of the Montana State Lottery, but are held at the Multi-State Lottery.

As the bonds mature, the proceeds are forwarded to the Montana State Lottery and distributed to the and prize winners on the anniversary date of each win.

As of June 30, 1991, Multi-State Lottery holds United States Government zero coupon bonds for the Montana State Lottery with a par value of $11,259,542.50. The approximate market value of these same bonds as of June 30, 1991, is $5,720,940.76. The combined total of future prize payments owed to the winners as of June 30, 1991, is $11,258,000. The total annual payments due over each of the next five fiscal years is $605,000 per year. The present value of the future prize payments approximate the current market value of the bonds held for the Montana State Lottery.

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